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TO RUEHC/SECSTATE WASHDC PRIORITY 4995

INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE PRIORITY

RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

RUEHRC/DEPT OF AGRICULTURE WASHDC PRIORITY

RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY

RUEHC/DEPT OF LABOR WASHDC PRIORITY

RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

RHMFIUU/CDR USSOUTHCOM MIAMI FL PRIORITY

RHMFIUU/CDR USNORTHCOM PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

UNCLAS SECTION 01 OF 03 MEXICO 000276

SIPDIS

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STATE FOR A/S SHANNON

STATE FOR WHA/MEX, WHA/EPSC, EB/IFD/OMA

STATE FOR EB/ESC MCMANUS AND IZZO

USDOC FOR 4320/ITA/MAC/WH/ONAFTA/ARUDMAN

USDOC FOR ITS/TD/ENERGY DIVISION

TREASURY FOR IA (ALICE FAIBISHENKO)

DOE FOR INTERNATIONAL AFFAIRS KDEUTSCH AND ALOCKWOOD

STATE PASS TO USTR (EISSENSTAT/MELLE)

STATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)

NSC FOR DAN FISK

E.O. 12958: N/A

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SUBJECT: CORRECTED -- MEXICO ECONOMIC NOTES, JANUARY 6 -
JANUARY 11, 2007

REF: A. 06 MEXICO 7054

1B. 06 STATE 202978

1C. DECEMBER 20

1D. 2006 EB/CIP/BA E-MAIL

1E. MEXICO 113

1F. MEXICO 185

Sensitive but Unclassified

Summary

11. (SBU) GE/NBC asked the Embassy to continue pressing the Mexican Attorney General's Office (PGR) to drop frivolous criminal charges against the company, meanwhile GE Chairman Jeff Immelt made similar points to President Calderon. The Mexican Telecom Regulator (Cofetel) will hold a teleconference with USTR to discuss U.S. industry complaints against Mexico's new "Calling Party Pays" system for cell phone charges. The regulator is also updating rules to spur competition in combined video, internet and phone services. Lower oil prices drove the peso to its lowest point against the dollar since December 1, while inflation closed slightly higher than expected for 2006. The Economy Secretariat tried to drive down corn and tortilla prices by relaxing import quotas for white corn. Economy Secretary Eduardo Sojo announced plans to combat an expected economic slowdown. Sugar workers are scheduled to strike on January 20. Preliminary numbers for 2006 show that foreign direct investment in Mexico was near last year's level, but below the government's target. End Summary.

GE/NBC Seeks to End Legal Harassment by TV Azteca

12. (SBU) On January 10, GE/NBC Vice President Scott Seeley

met with Emboffs. He promised us a read-out on the August 9 meeting between GE Chairman Jeff Immelt and President Calderon, saying that Immelt most likely made the point that after 127 years in Mexico, GE should not be being harassed by a competitor like TV Azteca trying to keep out competition. The harassment of greatest concern to GE/NBC is the frivolous criminal case filed by TV Azteca over a year ago. GE/NBC would like the USG to encourage the Mexican Attorney General's office (PGR) to drop the case, or at least remove GE/NBC from it. TV Azteca has used the case to legally harass GE/NBC -- most recently by pushing a new PGR investigator to start a money laundering investigation. In December 2006, the previous PGR investigator assured the Embassy that GE/NBC would likely soon be dropped from the case because there was no legal basis to the charges. The Embassy will continue pressing Mexican officials about the case. Seeley noted that previous Embassy discussions with PGR helped persuade PGR to control TV Azteca attempts to use the legal proceedings to harass GE/NBC. Seeley said that the recent press harassment of GE/NBC and its Mexican partners (ref A) had been particularly hard on GE/NBC's Mexican partners who have requested permission to operate a third TV network in Mexico.

Seeley said GE/NBC has had no further physical threats or actions against its staff since the forcible closure of the studio filming a Telemundo program last fall, but GE executives remain sensitive to any possible recurrence of such action. Telemundo plans to begin filming a new telenovela in Mexico City some time in the fall /summer timeframe.

Calling Party Pays

¶3. (SBU) The Mexican Press featured stories this week

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claiming that U.S. telecom firms are pushing USTR to start a trade case against Mexico in the WTO based on the high interconnection fees and other controversy surrounding Mexico's implementation of an international Calling Party Pays (CPP) system for cell phone charges. The papers drew their information from the public letters submitted to USTR as part of its 1377 process, though they did not explain this in their articles. As requested in refs B and C, Post provided these letters to Mexico's telecom regulator, Cofetel, and the Secretariat of Communications and Transport (SCT) in December for comment. Cofetel will hold a teleconference with USTR before submitting their reply. The SCT has also expressed interest in learning more about the USG's opposition to Mexico's implementation of CPP, possibly in a separate telecon (ref D).

Peso Falls to Five-Week Low

¶4. (U) The Peso fell to 11.03 to the dollar, its weakest since December 1. The decline was largely driven by lower oil prices, since oil accounts for more than one-third of government revenue. Mexico's crude export mixed dropped to USD 44.09 per barrel, lowest in a year as a result of decreased demand for heating fuel brought on by warmer weather in the United States. Mexico's 2007 budget is based on an average export price of USD 42.80 per barrel, so a continued oil price drop could spur spending cuts and slow Mexican growth.

Inflation Slightly Above Expectations

¶5. (U) Annual consumer price inflation for 2006 closed at 4.05 percent, slightly above the Central Bank's comfort zone and market expectations. The Central Bank's inflation target was 3 percent, plus or minus one percent. Inflation was at the upper end of this range during the final months of 2006, largely due to sharp increases in the price of fruits and vegetables. Most recently, however, prices for other items

particularly tortillas, have also fueled inflation.

Economy Secretariat to Increase Corn Import Quotas

¶6. (U) The Economy Secretariat announced it would open white corn import quotas and give smaller tortilla businesses access to the foreign-grown version of Mexico's staple food grain to reduce domestic tortilla prices. The Secretariat is already working with the Agriculture Secretariat to gauge local demand and determine if additional quotas should be provided for U.S. and Canadian imports. Mexico currently imports 9 million tons of corn annually (mostly yellow corn for animal feed.) Domestic demand for all types of corn is about 28 million tons. Post is looking into the details of rising tortilla prices, and will report further.

Telecom Regulator to Issue Convergence Regulations

¶7. (U) Mexico's Telecom Regulator, Cofetel, will update secondary regulations that now serve as an impediment to full convergence in telecom services for combined video, internet and phone services. Cofetel Commissioner Eduardo Ruiz Vega said that with the adjustments, the regulator would spur competition and reduce bureaucracy. He added that even the telecom monopoly Telmex could be required to pay for the right to offer additional telecommunication services.

Sugar Workers Strike Scheduled for January 20

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¶8. (U) Mexican Sugar Producers are likely to strike January 20. Rene Martinez, Chairman of the National Sugar and Alcohol Chamber, reported that the union is unwilling to negotiate. According to Martinez, speaking on behalf of the sugar producers, the 36,000-member union is demanding a pension of 170% of a workers final salary upon retirement.

Sojo Introduces Plans to Face Economic Slowdown

¶9. (U) Economy Secretary Eduardo Sojo told the press the Calderon Administration would work more proactively to address the expected future economic slowdown by stimulating the domestic market, diversifying, and supporting small- and medium-sized businesses (SMEs). Efforts include creating more programs to promote business start-ups, 150 programs to support SMEs, and coordinating the efforts of government agencies to promote exports.

FDI a Disappointment Again

¶10. (U) Preliminary 2006 numbers from the United Nations Conference for Trade and Development (UNCTAD), show that foreign direct investment (FDI) flows to Mexico have stalled for yet another year. FDI flows to Mexico reached USD 18.9 billion, below the government's goal of USD 20 billion, and comparable to last years USD 18.93 billion. President Calderon recently addressed the issue during a speech to Mexico's Ambassadors and Consuls, where he beseeched them to work to attract foreign investors to the country (ref F).